

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSCE-00 CIAE-00 EUR-03 CEA-01
INR-01 INRE-00 FRB-03 SSO-00 /017 W
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O R 131600Z JUL 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 4191
TREAS DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 ROME 12949

LIMDIS GREENBACK

USEEC: PARIS ALSO FOR USOECD

E.O. 11652: GDS
TAGS: EFIN, IT
SUBJECT: TREASURY MINISTER PANDOLFI'S VIEWS ON BREMEN AND
BONN SUMMITS

NOTE: THIS IS THE FIRST OF TWO MESSAGES REPORTING ON A
LENGTHY CONVERSATION THE AMBASSADOR HAD WITH TREASURY
MINISTER PANDOLFI ON JULY 12. THIS FIRST MESSAGE REPORTS
THE MINISTER'S VIEWS AND PERCEPTIONS ON THE BREMEN AND
BONN SUMMITS. THE SECOND MESSAGE DEALS WITH THE DOMESTIC
ECONOMIC SITUATION AND ITALY/IMF NEGOTIATIONS.

1. SUMMARY. PANDOLFI CONFIRMED THAT ITALY HAS SERIOUS
RESERVATIONS ABOUT JOINING A RIGID EUROPEAN MONETARY ARRANGE-
MENT OF THE TYPE ENVISAGED BY GISCARD AND SCHMIDT. FOR
BOTH ECONOMIC AND POLITICAL REASONS, HOWEVER, ITALY COULD
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NOT A PRIORI RULE OUT THE POSSIBILITY OF PARTICIPATING
IN A MODIFIED MONETARY SCHEME WHICH GAVE PARTICIPATING
COUNTRIES CONSIDERABLE FLEXIBILITY IN USING THE EXCHANGE
RATE AS A POLICY TOOL. IN FACT, ITALY SEES POTENTIALLY
IMPORTANT POLITICAL AND ECONOMIC BENEFITS DERIVING FROM
SUCH PARTICIPATION. TYING ITALY TO A EUROPEAN MONETARY
NETWORK WOULD PROVIDE A HIGHLY VISIBLE EXTERNAL

CONSTRAINT WHICH WOULD FORCE POLICYMAKERS TO KEEP THE ECONOMY IN STEP WITH THE REST OF EUROPE. HENCE, TOGETHER WITH THE UK, ITALY WILL BE WORKING TOWARD FORMULATING A MONETARY ARRANGEMENT WHICH IS BOTH FLEXIBLE AND DOES NOT SEEK TO "CONDITION" THE DOLLAR. PANDOLFI OFFERED TO LISTEN TO ANY VIEWS THE US MIGHT HAVE ON THIS SUBJECT; HE WOULD THEN TRY TO INJECT THESE VIEWS INTO EEC DELIBERATIONS IN COMING MONTHS. WITH RESPECT TO THE FORTHCOMING BONN SUMMIT, PANDOLFI EXPECTED GROWTH, MONETARY ISSUES AND TRADE TO BE THE MAJOR TOPICS. END SUMMARY.

2. PANDOLFI STATED THAT EUROPE IS DIVIDED ON THE QUESTION OF MONETARY COOPERATION. THERE IS THE FRENCH-GERMAN POSITION ON ONE HAND AND THE ITALIAN-UK POSITION ON THE OTHER. THE FRENCH-GERMAN SCHEME CONTEMPLATES THE FORMATION OF A "EUROPEAN POLE" CONSISTING OF A TIGHTLY CONNECTED FRAMEWORK OF CURRENCIES--THROUGH THE EUROPEAN CURRENCY UNIT (ECU)-- WITH THE DEUTSCHEMARK AS THE POINT OF GRAVITY. ACCORDING TO PANDOLFI, IF ENACTED, SUCH AN ARRANGEMENT WOULD HAVE TWO MAJOR CONSEQUENCES: (A) BECAUSE THE DM WOULD HAVE MORE WEIGHT THAN ANY OTHER CURRENCY (IN THE ORIGINAL SCHEME, 30 PERCENT), IT WOULD TEND TO PULL THE WEAKER CURRENCIES UPWARD, AND (B) IT WOULD TEND TO "CONDITION" THE US DOLLAR. HE SAID ITALY AND THE UK ARE NOT PREPARED TO ACCEPT A SYSTEM WHICH CARRIES SUCH IMPLICATIONS. ITALY HAS NO PRETENSIONS
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OF FOLLOWING THE DM NOR DOES IT WISH TO SEE THE US AND EUROPE ENTER INTO A PERIOD OF CONFRONTATION OVER EXCHANGE RATE POLICY.

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C O N F I D E N T I A L SECTION 2 OF 2 ROME 12949
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THE ITALIAN-UK POSITION INSTEAD FAVORS A
SYSTEM WHICH WOULD HAVE A BASKET OF CURRENCIES,
INCLUDING THE US DOLLAR, AS THE POINT OF REFERENCE,
WITH MARGINS OF FLUCTUATION OF 5-10 PERCENT ON BOTH
SIDES AND WITH THE OPTION OF SHIFTING THE POINT OF
REFERENCE WHENEVER A COUNTRY'S BALANCE OF PAYMENTS
WARRANTED IT. IN ADDITION, ITALY (AND THE UK) WANTS
TO SEE ANY COOPERATIVE ARRANGEMENT ENTERED INTO ONLY
GRADUALLY. PANDOLFI IS SCHEDULED TO GO TO LONDON ON
JULY 25 TO MEET WITH CHANCELLOR HEALY TO DISCUSS THEIR
COMMON APPROACH.

3. DISCUSSING THE PHILOSOPHICAL UNDERPINNINGS OF THE
GISCARD-SCHMIDT POSITION, PANDOLFI SAID THAT THE TWO
LEADERS SEE 1979 AS A KEY YEAR FOR EUROPE. IN 1979,
THERE IS THE SCHEDULED DIRECT ELECTION FOR THE EUROPEAN
PARLIAMENT, WHICH REPRESENTS A WATERSHED FOR EUROPE.
SINCE A TRULY UNITED EUROPE CANNOT BE BUILT ON A POLITICAL
BASE ALONE, GISCARD AND SCHMIDT ENVISAGE MONETARY UNION
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AS AN IMPORTANT SECOND PILLAR WHICH SHOULD PROCEED
TOGETHER WITH FORWARD STEPS ON THE POLITICAL FRONT.
PANDOLFI DID NOT DISAGREE WITH THESE PREMISES AND IN
FACT SAW SOME ADVANTAGES FOR ITALY. FROM A POLITICAL
STANDPOINT, THE EUROPEAN PARLIAMENT COULD ACT AS AN
IMPORTANT FORCE ON ITALY'S POLITICAL PARTIES TO FOCUS
THEIR ATTENTION ON EUROPE. THIS WOULD BE PARTICULARLY
IMPORTANT FOR THE SOCIALISTS AND THE COMMUNISTS. IN
FACT, A PARTICULARLY DIFFICULT DILEMMA ARISES FOR THE
COMMUNISTS SINCE THEY WOULD HAVE TO DECIDE WHERE THEY
STOOD WITH RESPECT TO EUROPE. ON THE ECONOMIC SIDE,
THE FACT THAT ONE OF THE FIRST ACTS OF THE EUROPEAN
PARLIAMENT WOULD BE TO PASS A COMMUNITY-WIDE BUDGET
WOULD MEAN A NEW CONSTRAINING INFLUENCE WOULD BE ADDED
TO ITALY'S BUDGET PROCESS. ACCORDING TO PANDOLFI,
ITALY'S PARTICIPATION IN A EUROPEAN MONETARY ARRANGEMENT
WOULD ALSO HAVE VERY DEFINITE ECONOMIC BENEFITS. BY
TYING THE LIRA TO OTHER EUROPEAN CURRENCIES, POLICYMAKERS

WOULD HAVE TO WEIGH THEIR ACTIONS MORE CAREFULLY TO TRY TO KEEP THE ECONOMY IN STEP WITH THAT OF OTHER PARTICIPANTS. THIS WOULD BE A VERY VISIBLE CONSTRAINT, AND ONE WHICH COULD NOT BE EASILY IGNORED. THE FAILURE OF ANY GOVERNMENT TO KEEP ITALY IN EUROPE WOULD HAVE VERY PREDICTABLE POLITICAL CONSEQUENCES.

4. TURING TO THE BONN SUMMIT, PANDOLFI SAW THREE MAJOR AGENDA ITEMS: (A) ECONOMIC GROWTH, (B) MONETARY QUESTIONS AND (C) WORLD TRADE. WITH RESPECT TO GROWTH, HE SAW THIS AS A GERMAN PROBLEM AND WAS NOT ALL THAT OPTIMISTIC THAT A SATISFACTORY AGREEMENT WOULD BE REACHED SINCE GERMANY IS PARTICULARLY CONCERNED ABOUT INFLATION. ON MONETARY ISSUES, HE THOUGHT THE BASIC CONCERN WOULD BE WITH THE IMPLICATIONS OF THE BREMEN
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ACCORD, AND HOW IT RELATED TO THE US DOLLAR. ON THIS SCORE, HE SAID ITALY IS PREPARED TO ACT AS A BRIDGE BETWEEN THE US AND THE EC. FINALLY, WITH RESPECT TO WORLD TRADE, HE INDICATED THAT ITALY WOULD DO ITS BEST TO HELP RESOLVE OUTSTANDING ISSUES IN THE MTN, PARTICULARLY IN THE AREAS OF AGRICULTURE AND NON-TARIFF BARRIERS, AND AGREED THAT THE BONN SUMMIT SHOULD GIVE ADDED IMPETUS TOWARD A SUCCESSFUL CONCLUSION OF THE MTN (SEE ROME 12839 FOR FURTHER DETAILS ON THE EXCHANGE BETWEEN THE AMBASSADOR AND PANDOLFI ON THE MTN). GARDNER

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